

# Macquarie Corporate Bond Fund - Class A Units

Monthly report – 31 July 2023

## Investment objective

Aims to outperform the Bloomberg AusBond Bank Bill Index, after costs but before tax, over a rolling three-year basis. It aims to provide regular monthly income with some potential for growth while aiming to preserve capital value.

## Key information

### Fund details

APIR code (Class A Units)	AMP0557AU
Inception date	23 June 2009
Fund size <sup>+</sup>	\$429.2m
Distribution frequency	Monthly
Management fee <sup>*</sup>	0.53% pa
Minimum investment (Direct)	\$500,000
Unit prices and spreads	<a href="https://www.macquarie.com.au/unit_prices">macquarie.com.au/unit_prices</a>

<sup>+</sup>Read the Product Disclosure Statement for more details on fees and costs.

<sup>\*</sup>As the Fund has one or more classes of units on issue, this figure represents the assets under management (AUM) of the Fund as a whole (rather than the AUM attributable to the class of units specified in this report).

## Class performance to 31 July 2023

	Total Class return (gross)	Total Class return (net)	Benchmark return	Total excess return (net)
<b>1 month (%)</b>	0.78	0.73	0.37	0.36
<b>3 months (%)</b>	1.29	1.12	0.97	0.15
<b>1 year (%)</b>	4.57	3.93	3.15	0.78
<b>3 years (% pa)</b>	2.20	1.61	1.13	0.48
<b>5 years (% pa)</b>	2.46	1.85	1.20	0.65
<b>10 years (% pa)</b>	3.40	2.79	2.44	0.35
<b>Since inception (% pa)</b>	5.37	4.75	3.87	0.88

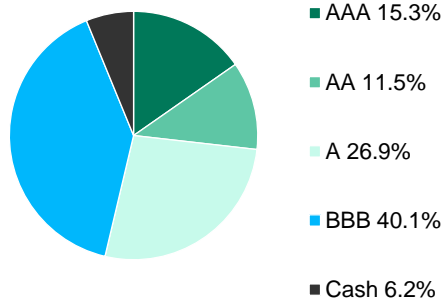
### Past performance is not a reliable indicator of future performance.

Total returns are calculated based on changes in net asset values and assumes the reinvestment of distributions.

Total net Class returns are quoted after the deduction of fees and expenses. Due to individual circumstances, your net returns may differ from the net returns quoted above.

Macquarie Investment Management Global Limited (MIMGL) was appointed as the investment manager of the Fund from 26 March 2022 and Macquarie Investment Management Australia Limited (MIMAL) was appointed as the responsible entity of the Fund from 26 April 2022. Prior to these dates, the fund was managed or operated by another entity or entities. Please see the offer document of the Fund or contact Client Service on 1800 814 523 for further information.

## Credit profile breakdown



Average credit rating: A

BB and below include direct holdings and residual exposure to issuers held through our investment grade and emerging markets allocation.

## Fund statistics

Credit spread duration	1.4 years
Interest rate duration	0.7 years
Yield to maturity <sup>1</sup>	5.4% pa
Allocation to global securities (ex-Australia)	0.5%

<sup>1</sup> Pre-fee returns Fund would earn over next year based on current market conditions if there were no changes to interest rates or holdings. It is not an actual or estimated return.

## Top 5 asset allocation by industry

Industry	%
Banking	42.6
Residential Mortgage	11.8
REITs	8.1
Electric	5.9
Transportation	5.1

# Macquarie Corporate Bond Fund - Class A Units

Monthly report – 31 July 2023

## Fund highlights

The Portfolio outperformed the benchmark in July as Australian credit spreads rallied towards their 2023 tightests. Within senior financials offshore banks contributed the most, with strong rallies from European names in particular. The underweight position in longer-dated major banks also contributed to returns as they lagged the broader spread rally. Tier 2 also performed well into the new financial year, with an improved supply outlook and market technicals contributing to a near 30bp rally in recent deals. Select corporate names outperformed, with higher beta sectors and wider-trading names moving tighter. Utilities were arguably the strongest sector, as recent well-received deals provided a number of price points and spreads subsequently rallied. Structured securities continued their recent rally, moving another 5-10bps tighter over the month as secondary flows were heavily skewed towards buying. Longer than benchmark duration positioning also contributed to returns, with yields rallying over the month. Over the month, the Portfolio participated in a transaction from CNH Industrial Capital.

## Market overview

### Australian cash market

The Reserve Bank of Australia (RBA) left the cash rate target unchanged at 4.10% at their July meeting. This did not surprise the market, with consensus expectations for a hold in the cash rate. The ensuing statement outlined three reasons that justified the decision. Firstly, "interest rates have been increased by 4 percentage points since May last year", and secondly "the monthly CPI indicator for May showed a further decline". Finally, pausing would allow the Board "more time to assess the state of the economy and the economic outlook and associated risks". This was similar to the language used at the April meeting, where the RBA also paused. Forward guidance was in line with both the May and June meetings, indicating that the RBA would remain data dependent. The concluding remarks repeated that "Some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe, but that will depend upon how the economy and inflation evolve". The subsequent Minutes, released mid-month, reinforced that the RBA would remain data dependent. The RBA acknowledged that the August meeting would "have the benefit of additional data on inflation, the global economy, the labour market and household spending, as well as an updated set of staff forecasts and a revised assessment of risks".

Australian economic data pointed towards a slowdown in activity, although inflation remains above target and the labour market continues to be tight. Retail sales fell by 0.8% MoM in June, which was below consensus expectations that the print would be flat. This was a significant unwind from May's surprise gain. The Australian Bureau of Statistics attributed the decline to "weaker than usual spending on end of year financial year sales", which came as "cost-of-living pressures continued to weigh on consumer spending". The all-important Q2 headline CPI printed at 0.8% QoQ, a downside surprise to the market that was forecasting 1%. The annual headline inflation fell to 6% from 7% the previous quarter. Trimmed-mean inflation, the RBA's preferred measure of inflation, was also softer than expected printing at 0.9% QoQ and 5.9% YoY. A fall in domestic travel and accommodation contributed to the softer data, which could suggest that consumer discretionary spending has weakened. Nonetheless, inflation in Australia is still above the RBA's target. The labour market continues to show resilience with the unemployment rate at 3.5% in June and unchanged from May which was revised down from 3.6% to 3.5%. Hours worked increased 0.3% over the month and is now 4.7% over the year.

### Australian credit market

Australian credit had another strong month in July with Index option-adjusted spread tightening 6bps. The positive momentum was broad-based across sectors. In the financial space, domestic regional banks and European issuers significantly outperformed the major banks, though even the on-the-run 5-year major bank senior bonds ended the month more than 2bps tighter below 90bps. Financial subordinated paper crunched in post Westpac T2 issuance in June as spread tightened 28bps to 189bps with the lack of supply, light street inventory and attractive all-in yield contributing to the rally over the month. The recent outperformance in subordinated bonds meant that the spread ratio to senior bonds has tightened to 2.1x, which is at the tighter end of the historical range, compared to 2.4x at the end of June. There was also a reasonable spread performance in the corporate sector, particularly the recently issued bonds in the utility sector as well as some of the previously unloved REIT and high beta names that have underperformed the broader credit market over the past few months. Primary issuance market was lighter in July with 3.7bn of benchmark eligible bonds printed, mostly in shorter tenors from banks.

## Outlook

The battle lines of debate have been drawn, are you in the recession camp or the no recession camp. Consensus for a long time has been convinced recession would be inevitable, sustained yield curve inversion never gets it wrong? Yet long and variable lags are difficult to live through even if the inevitable ends up becoming true.

The big surprise in 2023 has been fiscal spending, which has remained more persistent than expected, underpinned by large increases to benefits and salaries and support for the Ukraine war effort. As fiscal spending feeds directly into the economy it has underpinned the jobs market, household incomes and therefore spending. The impact of monetary tightening is gradual and importantly felt differently between countries depending on lending practices. That said, higher rates are a drag on growth but for households and business there can be winners (e.g. savers) and losers (e.g. borrowers). Key for the economy is when this is accompanied by a tightening of lending conditions, which is taking place, the combination of monetary over-tightening and excessive tightening of credit conditions has resulted in recession every time in the past.

Our base case outlook remains for a cyclical recession, similar to 2001, acknowledging that hard landing risks have reduced in recent months. Our highest conviction view this year has been for inflation to fall, highlighting the possibility of a dip into deflation, remains on track. This is key for our position to add duration into each back up in the bond market. Risk markets remain very tightly priced, and therefore vulnerable to weaker growth emerging through the second half of this year. In addition, the environment of monetary over-tightening and tightening credit conditions also signals risk for potential financial dislocation, such as experienced with US Regional Banks earlier in the year. History guides that risky assets do not tend to react significantly until evidence of a downturn or financial risk become clearly evident.

## Macquarie Corporate Bond Fund - Class A Units

Monthly report – 31 July 2023

We therefore maintain a strategically constructive view on duration and cautious of risk markets, recognising that the pathway ahead is potholed by a high level of uncertainty.

**For more information speak to your financial adviser, call us on 1800 814 523, email [mam.clientservice@macquarie.com](mailto:mam.clientservice@macquarie.com) or visit [macquarieim.com](http://macquarieim.com)**

### Important information

Macquarie Investment Management Australia Limited ABN 55 092 552 611 AFS Licence 238321 is the issuer of units in, and responsible entity of the Fund. Macquarie Investment Management Global Limited ABN 90 086 159 060 AFSL 237843 is the investment manager of the Fund.

The above information is not personal advice and does not take into account the investment objectives, financial situation or needs of any person. Please review the Target Market Determination for the Fund available at [macquarieim.com/TMD](http://macquarieim.com/TMD) and consider if the Fund may be suitable for you. Investors should consider the offer document relating to the Fund in deciding whether to acquire or continue to hold units in the Fund. The offer document is available by contacting us on 1800 814 523. Past performance is not a reliable indicator of future performance. Future results are impossible to predict. This report includes opinions, estimates and other forward-looking statements which are, by their very nature, subject to various risks and uncertainties. Actual events or results may differ materially, positively or negatively, from those reflected or contemplated in such forward-looking statements. Forward-looking statements constitute the investment manager's judgement as at the date of preparation of this report and are subject to change without notice.

In preparing this document, reliance may have been placed, without independent verification, on the accuracy and completeness of information available from external sources. To the maximum extent permitted by law, no member of the Macquarie Group nor its directors, employees or agents accept any liability for any loss arising from the use of this document, its contents or otherwise arising in connection with it.

Other than Macquarie Bank Limited ABN 46 008 583 542 ("Macquarie Bank"), any Macquarie Group entity noted in this material is not an authorised deposit-taking institution for the purposes of the Banking Act 1959 (Commonwealth of Australia). The obligations of these other Macquarie Group entities do not represent deposits or other liabilities of Macquarie Bank. Macquarie Bank does not guarantee or otherwise provide assurance in respect of the obligations of these other Macquarie Group entities. In addition, if this document relates to an investment, (a) the investor is subject to investment risk including possible delays in repayment and loss of income and principal invested and (b) none of Macquarie Bank or any other Macquarie Group entity guarantees any particular rate of return on or the performance of the investment, nor do they guarantee repayment of capital in respect of the investment.

Bloomberg Finance L.P. and its affiliates (collectively, "Bloomberg") are not affiliated with Macquarie and do not approve, endorse, review, or recommend the Portfolio. Bloomberg and the Bloomberg AusBond Index or Indices referred to in this document are trademarks or service marks of Bloomberg and have been licensed to Macquarie. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the Bloomberg AusBond Index or Indices referred to in this document.